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Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

12 September 1984

IRAQ: Stalled Jordan Oil Pipeline

Summary

Prospects for the construction of an Iraqi oil export pipeline through Jordan are dim. Baghdad is worried over a possible Israeli attack on the pipeline and is insisting on long-term loans that will be repaid only as long as the pipeline is operating. Western lenders, however, are unwilling to accept this condition. Iraq also wants a long-term sales agreement with a major US company to ensure continuing US interest in keeping the pipeline operational. The Iraqis believe that if Western interests are threatened, Washington will restrain Tel Aviv. [redacted]

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The Iraqis are unlikely to waive their demands because they fear that closure of the pipeline would saddle their strapped economy with huge repayments. Doubts over US support for Iraq and US willingness to restrain Israel have weakened the hand of Iraqi advocates of the pipeline. At the same time, fragmentary evidence suggests that the Soviets have been playing on Iraqi fears to forestall building of the pipeline. Moreover, progress on the Saudi Arabian oil pipeline and prospects for increased oil exports through Turkey have lessened Iraq's need for the Jordan link as an alternate to the closed Persian Gulf route. [redacted]

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This paper was prepared by [redacted] Office of Near Eastern and South Asian Analysis. Comments and queries are welcome and may be directed to Chief, Persian Gulf Division, NESA, [redacted]

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Background

Strong US and Jordanian encouragement for the proposed Iraq-Jordan oil pipeline led the Iraqis to pursue the project earlier this year following delays in the proposed Saudi Arabian oil pipeline link. Progress is currently stalled on the 1.0 million b/d pipeline because of Iraqi insistence that repayment of any loans be contingent on continued throughput of oil and a guaranteed US oil purchaser. The Iraqis are concerned that the Israelis will interfere with the pipeline, thereby further burdening Iraq's badly strapped war economy. Western financial institutions and governments are unwilling, however, to assume the risk of "force majeure". [REDACTED]

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In the meantime, Iraq is pursuing alternate oil routes. Saudi Arabia, despite reservations, continues negotiations for the construction of an Iraqi oil pipeline link to its East-West petroline. The pipeline, which could be operational by early 1986, would allow Iraq to increase oil exports from one million b/d to at least 1.5 million b/d. The Saudis have dragged their heels on the project, but are considering a long-term loan of crude oil to Baghdad to pay for the project, according to the US Consulate in Dhahran. Contracts on this pipeline should be signed within the next 30 to 60 days. An Italian company, which already has work crews and equipment available in Saudi Arabia, may be selected for the actual construction to speed completion of the line. [REDACTED]

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Iraq is also exploring the construction of an oil pipeline parallel to the existing oil pipeline through Turkey. This line would increase oil exports by about 500,000 b/d. Iraq has recently boosted the capacity of its existing line through Turkey by adding five pumping stations. The stations apparently could be used to pump oil in the proposed new line thus facilitating construction. [REDACTED]

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Construction of the proposed export pipeline would boost Iraqi oil export capability to 3 million b/d even if the Gulf remains closed to Iraqi oil exports. This would be far in excess of what likely future oil markets could absorb, suggesting that, in fact, the Iraqis are playing off the pipeline proposals against each other to get the best deal. This is a typical Iraqi negotiating tactic. [REDACTED]

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Pipeline Advantages

An oil route through Jordan has considerable advantages to Iraq, including:

- An alternate oil outlet that bypasses the Persian Gulf and supplements its existing route through Turkey.
- An option in the event the Saudi Arabian oil pipeline fails to materialize.
- Stronger bonds with its ally Jordan, which borders rival Syria.
- Substantially improved relations with the US, whose support Iraq needs in its efforts to curtail Western arms sales to Iran. [REDACTED]

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[REDACTED]

A senior Iraqi official recently told US officials that the prospect of improved relations with the US was a strong motive. He said that the project gained priority over the Saudi line only after the US expressed strong support for it. The US Interests Section in Baghdad, however, reports that Iraqi oil technocrats oppose the project because it slows progress on the Saudi project, which is much further along. [REDACTED]

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Roadblocks

The main obstacle to the Jordanian pipeline is Iraq's deepseated fear of Israeli interference. Iraqi concern stems from the Israeli airstrike against the nuclear reactor at Tuwaitha in 1981 and other Israeli pre-emptive strikes against Arab states. The Iraqis also are concerned at the present time that the Israelis are preparing to attack its chemical weapons production facilities. Iraqi leaders probably fear that a pipeline across Jordan would be an easy Israeli target in any future Arab confrontation with Israel. According to a senior Iraqi official, the Israelis also might threaten the operation of the pipeline in non-military ways, such as by raising navigational problems for oil tankers in the Gulf of Aqaba. Iraqi concerns were increased by Israeli public assurances that it does not oppose the pipeline provided that its environmental concerns in the Gulf of Aqaba are satisfactorily addressed. [REDACTED]

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Suspensions Regarding the US

Although Iraq originally may have been willing to accept something short of "force majeure", Iraqi demands hardened this spring when Baghdad believed US enthusiasm for Iraq was waning. According to a senior Jordanian official, Iraqi officials in March expressed the belief that the US was reconsidering its policy of increasing support for Iraq. Moreover, we believe that Iraqi doubts increased after the US publicly accused Iraq of using chemical warfare agents against Iran. [REDACTED]

[REDACTED]

[REDACTED]

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The USSR opposes the pipeline because of its potential for increasing US influence in Iraq. According to the US Interests Section, the Soviet Ambassador in Baghdad described the pipeline as not in Iraq's interests because it would place a major Iraqi oil exporting facility under Israeli influence. These gains for the Soviets are offset somewhat by the Soviets' inability to persuade Syria to reopen its oil pipeline. [REDACTED]

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Israeli public statements on the pipeline have subtly undermined Iraqi advocates of the pipeline. Last May Iraq felt compelled to refute an Israeli minister's call for an Israeli pipeline link to the Aqaba line. Iraqi leaders are worried about appearing ready to cut a deal with the Israelis to obtain the pipeline. The Iraqi Interests Section in Washington told US officials that Iraq does not welcome intimations of Israeli preparedness to accept the pipeline in return for a quid pro quo from Iraq. [REDACTED]

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Outlook

Prospects for the completion of the Iraq-Jordan oil pipeline in the near term are bleak. Progress on the Saudi oil pipeline and consideration of the Turkish option have reduced Iraq's need for the pipeline to Aqaba. We believe the Iraqis will continue to demand that loan agreements for the Jordan line contain "force majeure" provisions to protect them from Israeli intervention. In essence, Baghdad's leadership appears to have agreed that the Jordanian pipeline will be built only if the US and the West are willing to assume all risks. In our judgment, Baghdad is unlikely to waive this condition unless the US guarantees the safety of the line or the Iraqis see evidence that the US is able to exert greater control over Israel. [REDACTED]

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